



County of Los Angeles
CHIEF ADMINISTRATIVE OFFICE

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DAVID E. JANSSEN
Chief Administrative Officer

January 5, 2004

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: David E. Janssen 
Chief Administrative Officer

Board of Supervisors
GLORIA MOLINA
First District

YVONNE BRATHWAITE BURKE
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

ADDITIONAL PAYROLL TAX WITHHOLDING

It has come to our attention that matching contributions to the Horizons and Pension Savings Plan for certain plan participants must be taken into account as "wages" for purposes of applying the Hospital Insurance Tax (HI Tax). Currently, the HI Tax requirements apply to approximately 24,500 employees who participate in the Horizons and Pension Savings Plans and became employed by the County on or after April 1, 1986, (referred to as "covered employees").

The Horizons and Pension Savings Plans are eligible deferred compensation plans under Section 457 of the Internal Revenue Code (IRC). Pursuant to the Federal Insurance Contributions Act (FICA) and the related regulations, matching contributions to a Section 457 plan are required to be included in a covered employee's wage base for the purpose of levying the HI Tax. Matching contributions to County 401(k) plans such as the Savings or Deferred Earnings Plans are not subject to this employment tax requirement.

As required by applicable law, since 1986 the County has levied the HI Tax by withholding 1.45 percent from each eligible employee's wages, paying an additional 1.45 percent as the employer's share and remitting and reporting the tax to the Internal Revenue Service (IRS). However, the County has never included Horizons and Pension Savings Plan matching contributions in the HI Tax wage base or levied the HI Tax on the untaxed matching contributions when they were distributed from the plans. To comply with law, the Auditor-Controller will take the Horizons and Pension Savings Plan matching contributions into account for purposes of calculating the HI Tax wage base for covered employees starting with the January 15, 2004, payday. Covered employees will be notified of this change in their paycheck.

Each Supervisor
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We have been advised by counsel that there may be a back-tax liability for 2000 through 2003. In addition, we have been advised that distributions of untaxed matching contributions and earnings for former employees subject to the HI Tax must be taxed. We have requested counsel to explore the back-tax issue and possible solutions with the IRS. We will report to you the result of these discussions when they are concluded.

DEJ:WL
FF:rld

c: Executive Officer, Board of Supervisors
County Counsel
Auditor-Controller
Each County Department Head